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SUBJECT: MT. KUMGANG SHOWS GROWING ROK FOOTPRINT IN DPRK

Classified By: POL M/C Joseph Yun. Reasons 1.4 (b/d).

11. (C) Summary. Mount Kumgang is sometimes regarded as a one-sided transfer of ROK tourist funds to DPRK coffers without much prospect of influencing the DPRK. The Kaesong Industrial Complex (KIC), in contrast, is seen as more beneficial because 16,000 North Korean workers are exposed to South Korean business practices there. However, an October 12-13 visit to Mt. Kumgang suggested that this initially secluded hiking destination is significant in terms of "opening" North Korea to South Koreans. Since the project began in 1998, developer Hyundai Asan has added several tourist destinations along a ten-mile stretch of the east coast including beachfront hotels and a luxurious golf club, with the option to go further north. To get to the dispersed sites, ROK tourists (a record 7,000 were there on October 13, with 60,000 expected for the month) traverse North Korean villages and farmland, where primitive conditions are plainly visible. In addition, over half of Mt. Kumgang's 2700 employees are now from the DPRK, and DPRK government entities are apparently competing to control Mt. Kumgang's USD revenue streams. End Summary.

UPSCALE RESORT VS. POOR VILLAGES

12. (SBU) On October 12-13, Emboffs joined 20 other Seoul-based diplomats on a Ministry of Unification (MOU) sponsored tour of Mt. Kumgang, one of two main South-North economic cooperation projects. The tour's most striking impressions were the contrast between the upscale resort sites and the primitive neighboring North Korean farmland and villages, and the sense that Hyundai Asan-led development is quietly transforming the area.

13. (SBU) Since 1998, when Mt. Kumgang opened to South Korean tourists, developer Hyundai Asan has steadily spread its reach beyond the secluded hiking areas (also enlarged) to include "Sea Kumgang," a rocky coastal area next to a DPRK naval facility, "Samilpo," a famous lake, and beachfront hotels, camping areas and a luxurious golf club across from Kosong, which used to house a DPRK naval base. Typical three-day package tours include visits to all of these areas, so that thousands of ROK tourists each day get a glimpse of the primitive North Korean farmland and villages that surround the resort areas; and the DPRK residents see the busloads of brightly dressed tourists going by.

14. (C) During six 20-minute drives to and from the sites listed above, the endemic poverty and lack of development of this section of North Korea were clear. In and around the village of Onjongri, just outside the main Mt. Kumgang complex, we saw many pre-industrial-era scenes. Most of the several hundred people we saw traveled on foot and were shabbily dressed. Some had bicycles, often loaded with bags.

Only four or five cars, mostly SUVs carrying uniformed soldiers, were visible during each drive on the road that paralleled the access road to Mt. Kumgang's main area. A farmer plowed his field with an ox and wooden plow. Other farmworkers, including several crews of uniformed soldiers, used their hands or small tools in the fields and carried bundles on their heads. Crops were loaded on wooden carts pulled by cattle or by hand. Women washed dishes and clothes in the river. No household lighting was visible during either day, including the overcast October 13 (we did not see the areas at night). There were dozens of cattle and goats in the area, which a European diplomat said was not the case during a 2004 visit. A Russian diplomat on the trip who previously served in Pyongyang said that DPRK authorities had moved many prior residents out of the Mt. Kumgang area when the project began.

15. (C) The contrast between those scenes and the Mt. Kumgang resort sites is stark. We watched as ten truckloads of construction supplies, followed by four fuel tankers, drove from the Demilitarized Zone (DMZ) to Hyundai Asan building sites including a 12-story reunion center, where construction was in full swing. Also on our itinerary was the USD 110 million golf course, including an ornate clubhouse and 96-room luxury hotel, that an ROK company is building, located a few hundred meters away from the farms described above. Looking south from the Mt. Kumgang hotel at night, the only lights visible outside the resort's main area were on cranes and other equipment at the reunion center construction site.

16. (C) The Korean People's Army (KPA) presence was clear but not obtrusive. At each junction, KPA sentries dressed in green wool uniforms stood guard, holding red flags that guides told us they would raise if any tourist took pictures (resulting only in making sure the pictures were deleted, we were told). One village road crossed the main Mt. Kumgang complex, and KPA sentries there whistled oncoming traffic, which was sparse, to a stop when tour buses crossed the junction, after which North Koreans, mostly on foot or on bicycles, could cross.

17. (C) On several hilltops in the area, military trucks and what appeared to be artillery were parked in shelters that looked like one-car garages without doors. Kim Young-hyun, Hyundai Asan's General Manager for Mt. Kumgang, who has lived there for four years, volunteered that the structures were built after he arrived, and that he had never seen any of the equipment moved or maintained.

USD CASH ECONOMY

18. (C) Besides the USD 500-600 for a three-day package tour (USD 70 of which reportedly goes into DPRK state coffers), ROK tourists clearly spend a significant amount of cash at the restaurants, gift shops and vendors inside the Mt. Kumgang resort areas. For example, with 100 tour buses in the main parking lot on October 13, tourists lined up at a makeshift stand in front of the main gift shop to pay USD 100 for 700 grams of pine mushrooms; prices for this delicacy are higher in South Korea. Mt. Kumgang's prices are denominated in USD, but Korean won are also accepted. Ironically, USD 100 bills are not accepted out of fear of counterfeit notes.

19. (C) Hyundai Asan General Manager Byun Ha-jung said that there is emerging competition between various DPRK entities to control the revenue streams, but he would not elaborate on that. He added that money from wages and tips (officially

forbidden but given in practice) was raising living standards in the area, although he had not been able to visit DPRK employees at their living quarters. Byun, formerly the manager of Mt. Kumgang's duty free store, said that a North Korean official on site once approached him asking for details about the store's daily turnover, implying that more senior DPRK officials wanted to know.

HYUNDAI ASAN NORMS

¶10. (C) Like the KIC in the west, Mt. Kumgang owes its tidy atmosphere to Hyundai Asan, whose founder, Chung Ju-yung, was born in North Korea (near Mt. Kumgang) and essentially launched inter-Korean engagement policy based on his personal convictions. The resort areas are efficiently managed by pinstriped Hyundai Asan employees carrying walkie-talkies, with no visible sign of a DPRK management presence, though 1400 out of 2700 employees are now DPRK citizens. For example, when the Mt. Kumgang hotel, which gets electricity from the DPRK power grid, had no electricity on the evening that the group of diplomats arrived, Hyundai Asan managers quickly found a way to run its power from one of their generators. The DPRK employees that Hyundai Asan hires are apparently all university graduates from Pyongyang. The young hiking guides our group interacted with were cheerful and dressed like the ROK tourists in Gore-Tex and fleece. But they quickly stepped in when we tried to take a picture of a mosaic of Kim Il-sung and Kim Jong-il, insisting that only they knew "the best way to show the Dear Leader." During an earlier visit to Mt. Kumgang accompanying a Congressional Delegation, Poloffs found that guides were eager to talk about U.S. policy toward North Korea and latest developments in the Six-Party Talks.

¶11. (C) Hyundai Asan also engages in diplomatic outreach. After August floods struck the DPRK, the company provided 740 tons of relief goods to the local area. It was Hyundai Asan's patient diplomacy, MOU DG Um told us, that led to the DPRK removing the many armed checkpoints that tourists first had to pass through to get to Mt. Kumgang sites; the company reached agreement for one checkpoint to be removed every six months (probably in exchange for some payment). Hyundai Asan Chairman Yoon Man-joon, who was at Mt. Kumgang on October 13 for the dedication of rebuilt Buddhist shrine, told the group of diplomats that he expected Mt. Kumgang's business to be more stable in the future, alluding to its past financial and political difficulties (such as the USD 70 million that it borrowed from the ROKG's National Tourism Organization in 2001).

COMMENT

¶12. (C) ROK capital is making inroads into North Korea, gradually increasing the ROK's footprint in the area. Some South Koreans envision the Mt. Kumgang project as the beginning of a slow upward crawl of a "peace zone" along the east coast of the peninsula, to mirror the proposed "West Sea Peace Zone" running along the west coast from the Kaesong Industrial Complex to Haeju. While this plan is ambitious, Hyundai Asan has already made considerable headway. An increasing number of South Koreans crossing the DMZ (marked with a very light line on Hyundai Asan's graphic map of the area) and seeing one corner of the DPRK is a worthwhile trend, and DPRK authorities getting used to collecting hard currency through tourism may also be a trend in the right direction. Commenting on Mt. Kumgang's role in inter-Korean relations, MOU DG for Korean Unification Policy Planning Um said that the South Korean public should not be too concerned about the DPRK objecting to the words "openness" and "reform" (an issue at the October 2-4 ROK-DPRK leaders' summit) because it was clear that the DPRK wanted more "sweet poison," i.e., money.

VERSHBOW